



Defence Academy
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Knowledge as an inhibitor to competition in defence acquisition

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Overview

1. Definitions

- Competition – various views
- Knowledge – intangible asset influencing competition
- Neoliberalism – framework which shapes and informs both competition and knowledge

2. Knowledge and Competition

- Dominant Discourse – sets rules for “truth claims”
- Control of, and uncertainty associated with knowledge

3. Weaknesses of Knowledge Practices

- Increasing role of intangible assets - including knowledge

4. Knowledge - Acquisition Specialists

- Financial, Legal and Management of Intangible Assets

1.1.Competition

- “ a principle so basic to economic reasoning that not even such powerful yet diverse critics such as Marx and Keynes could avoid relying upon it – **without every clearly specifying what competition is**”
- *“most general tendency ... to regard it as the opposite of monopoly” (McNulty, 1986)*

Duopoly \neq Competition

Definition used = based on a competitive market

1.2. Knowledge

- Knowledge is complex topic which despite over 2500 years of philosophical inquiry is still a contested area
- Plato = justified true belief
- Aristotle = “know how” and “know what” (latter introduces **ethics** which has relevance for political discourse)
- Distinction between “explicit” and “tacit” – IT cannot deal effectively with the latter and hence the importance of **social** networks

Guiding Definition (Sveiby) = the ability to act

1.3. Neoliberalism

- Political ideology widely adopted and implemented by democratic (US and UK) and authoritarian (Chile) countries from 1980s onwards
- Founded on neoclassical economics = **econometric ideology** informed by **rationality**
- Built on ideal of self-regulating markets underpinned by core concepts such as global economic interdependence, worldwide flow of goods, services and labour, deregulated global market capitalism, transnational corporations able to access offshore finance, **privatisation of state-owned enterprises**

2.1. Neoliberal Assumptions within Defence Context

- **Econometric Ideology** – based on neoclassical economics and an assumption of competitive markets but which have never been valid for defence and are less so post-globalisation of defence suppliers
- **Rationality** – UK government implemented the neoliberal agenda through a programme known as New Public Management (NPM) which assumed rationality
- **Privatisation of State-owned Enterprises** – included those areas involved in the creation and management of knowledge (e.g. selling off Qinetiq in the UK) and which in turn created issues around how to remain an **intelligent customer**

2.2. Inherent Tension between Political Ideology and Rationality

- “politics is not an arena for reasoned debate, it is an arena for the struggle over reason” (Levine, 2012)
- The application of reason is given primacy in determining truth claims
- Ideologies and policies seek validation by excluding doubt, whereas the application of reason increases doubt.
- Ideologies set the framework and discourse around what knowledge is viewed as truth and often has sanctions to stifle the credibility of views

Defence acquisition is inherently a political processes and hence its claims to knowledge is being assessed by key stakeholders operating within the belief system (complete with an ethical framework) of the dominant discourse

2.3. Discourse as Governmentalities

- Governmentalities – certain modes of governance based on particular premises, logics and power relationships. (Foucault)
- Postmodernist view – “authoritative knowledge” never resides independent of power
- Neoliberal governmentality defines truth within its values such as competitiveness, devolution of state power, self-regulating free markets, and “rational choice” models that internalise, and thus normalise, markets

2.4. Controls used within a Discourse

Galileo – astronomical observations challenged Church beliefs

Adam Smith – concerned with the role of power, influence and class in distorting economic policy to serve the interests of a narrow elite e.g. politicians beholding to the mercantile class

“such a person, "is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them [he is subjected to] the most **infamous abuse and detraction**“

2.5. Neoliberalism - New Public Management - Rationality

“the ideological nature of management is obscured by the way in which it appears to be based upon objective knowledge independent of political or social interests and moral considerations”

Source: Grey, (1996:601)

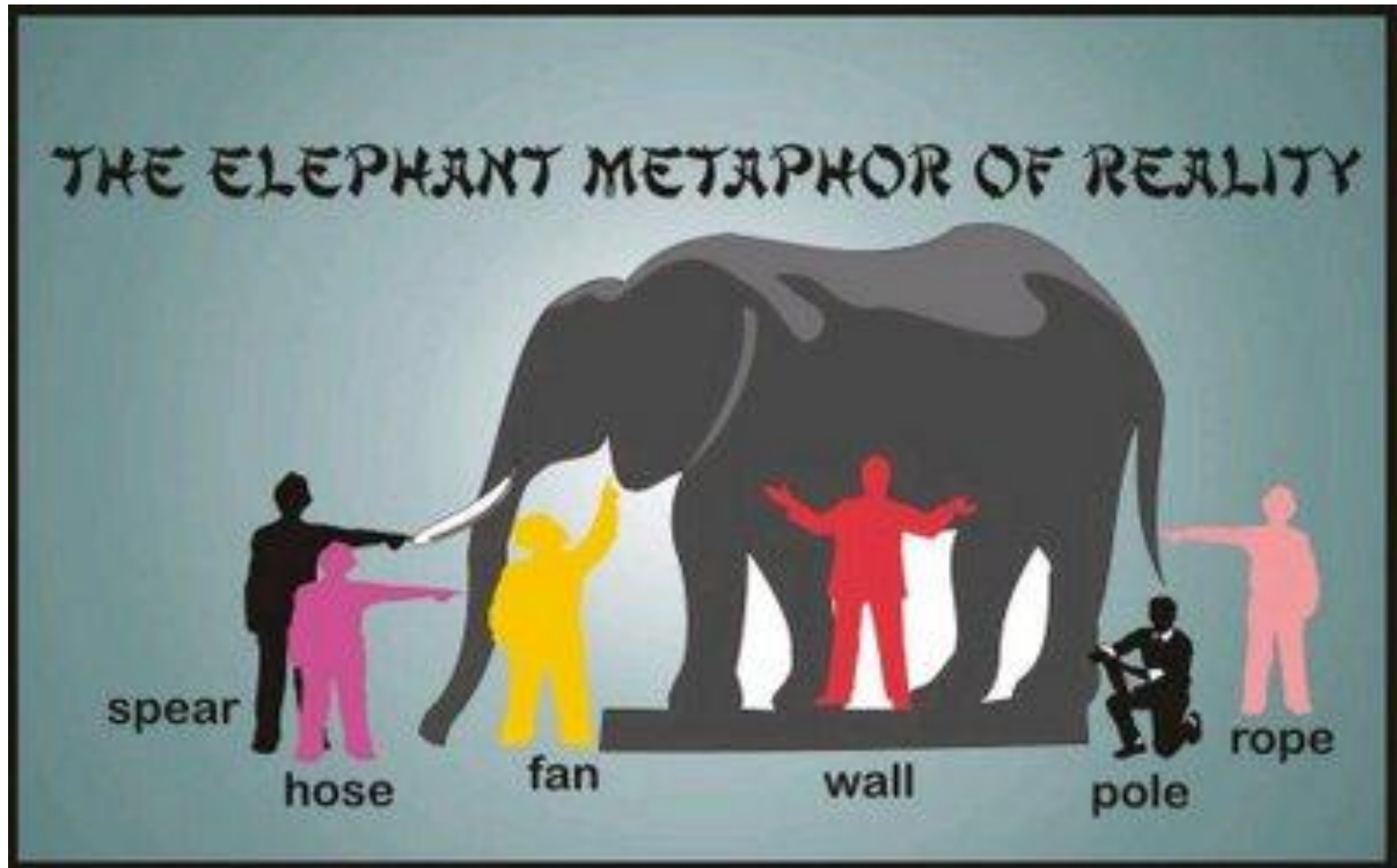
Managerialism – also has limitations

2.6. Limitations of NPM

- 'Commercial model is not always best'
- "I'm learning that the application of the lean commercial model does have relevance in areas of the MoD but, equally, you can't look at a warship and say, 'How can I bring a lean management model to this?' – because it's doing different things with different levels of resilience that are not generally required in the private sector."

Philip Hammond: UK Secretary of State for Defence 14th August, 2012, Interview with The Independent following G4S failure to provide security for London Olympics

2.7. Whose knowledge (claim to truth) is to be believed?



2.8. Implications for Defence

- Key stakeholders and powerful interest groups tend to view the application of neoliberal principles as universal i.e. every value can be translated and expressed as an economic value
- Defence appears to be a special case where it is not always easy to translate every value into an economic one or always operate within managerialist assumptions

Dilemma – how can defence introduce its knowledge when it cannot be easily viewed through an economic lens designed to focus on optimal market efficiency?

3.1 Globalisation of Defence Markets

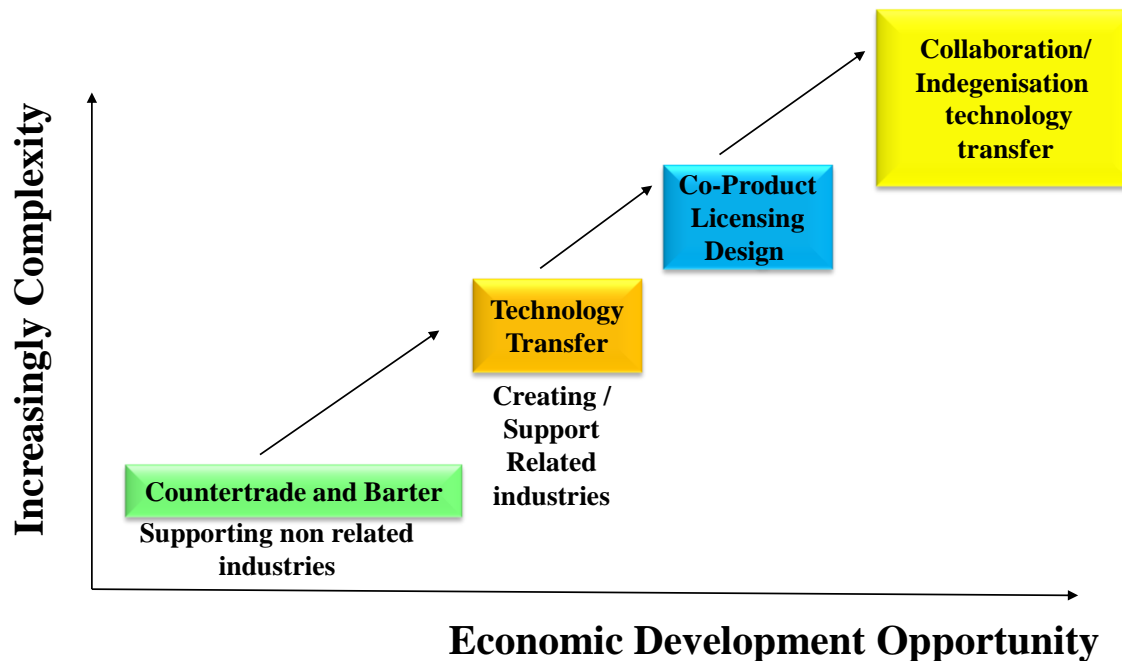
Overall impact has been to reduce competition

- Shift in power – From Governments having monopsony arrangements to suppliers no longer being dependent on a single customer – n.b. USA (50% of spend) may be an exception
- Post Cold War – many suppliers left the market while those remaining engaged in consolidation through mergers and acquisitions
- Competitive bidding by firms forming strategic alliances, acting as consortia, etc. e.g. UK Carriers – BAE and Thales.
- ***Knowledge needed to remain an intelligent customer is acknowledged as an increasing risk e.g. without it how can “value-for-money” be assessed***

3.2 Knowledge Issues which reduce Competition – Government Actions

- Government being too risk-averse about withholding knowledge
- Policy misalignment e.g. require defence spending to subsidise other policies such as employment, industry development, etc. and even if acknowledged, defence is increasingly held accountable in terms akin to competitive markets
- Offsets is the most commonly cited example

3.3. Evolving Nature of Offsets



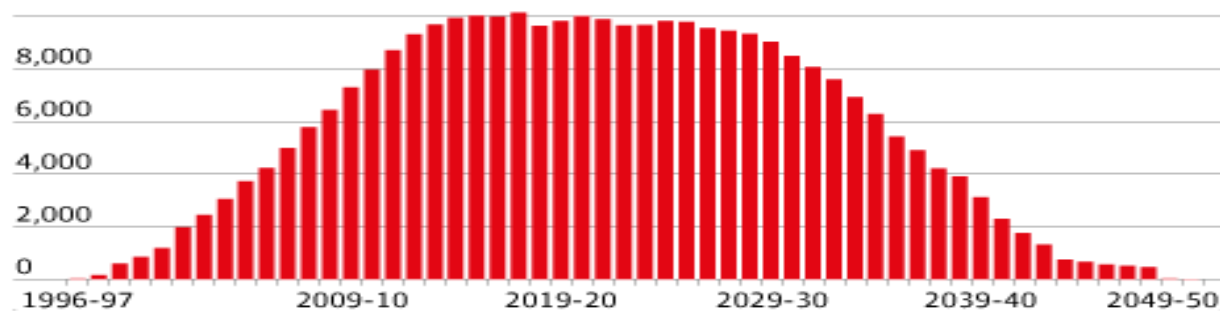
3.4. Knowledge Issues which reduce Competition – Practices

- Capability Management (CM) – shift from procurement of goods to acquisition of capability i.e. services.
- CM - Series of reviews suggest the MoD has not done well on this front (e.g. in 2011, facing a £38 billion “black-hole” in the major equipment programme). Most frequently cited cause - lack of relevant knowledge (commercial in particular)
- Contractual and Financial Innovations – Public Private Partnerships and Public Finance Initiatives. Short term showed promise but analyses of longer term are very worrying. Again the blame is laid at a lack of appropriate acquisition knowledge - *the dominant discourse which informed these strategic decisions is not challenged*

3.5. PFI Deals – Costs balloon

The real cost of PFI

Total repayments, £m



Department of Health

Department for Education

Grand total All departments

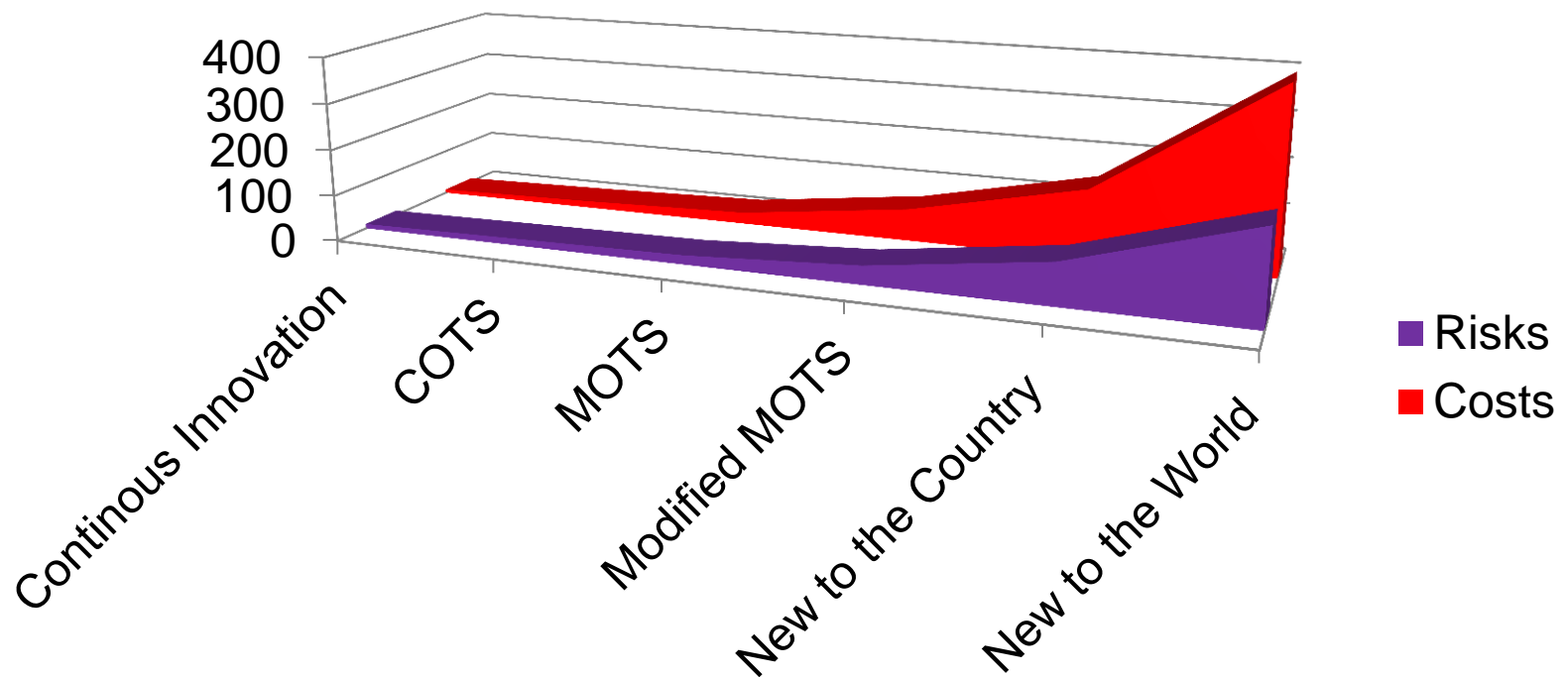


“The irony is that we privatised the buildings but nationalised debt. It’s Crazy”
Margaret Hodge, Chair of the Common’s Public Accounts Committee.

3.6. Knowledge Issues which reduce Competition – Innovation

- UK Defence has progressively outsourced more activities including the creation of knowledge needed to generate leading edge, battle winning technology i.e. the deliberate adoption of an “Open Innovation” (OI) strategy
- OI strategy successful with consumables and small assets but has struck limitations with large, long lived assets i.e. because manufacturers control the knowledge associated with the asset it is difficult to expose through-life costs to competitive markets
- Criminal Entrepreneurship – is based on a knowledge of human weaknesses. Defence industry has a long history of corrupt practices. Defence is even more vulnerable as the buyer is also the legislator

3. 6. Leading Edge Bleeding Edge



3.7. UK's Proposal - Commercial Results

- GoCo (Government Owned, Contractor Operated) Organisation
- *"The work done to date, suggests that the strategic case for the GoCo option is stronger than the ENDPB (Executive non-departmental public body with a strategic partner) from the private sector option"* (Defence Secretary, Hammond, 18th July, 2012)

Issue – GoCo is set up within a managerialist framework to achieve enhanced financial performance . Knowledge issues become more complex e.g. how to manage security and commercial issues as well the risks associated with the intelligent customer concept

4.1. Major Movements – Past and Future

Past 30 Years

- Neoliberal Agenda – widespread adoption and emphasis on an economic focus
- Industrial Economy giving way to the “Knowledge Economy” – latter is more than the wide spread adoption of Information and Communications Technology i.e. the most dynamic and creative components involve **social networks**

Future

- *Neoliberal discourse will continue to dominate however the political implications include generating **unanticipated**, and at times **unintended, consequences**.*

4.2. Unanticipated Issue – Intelligent Customer

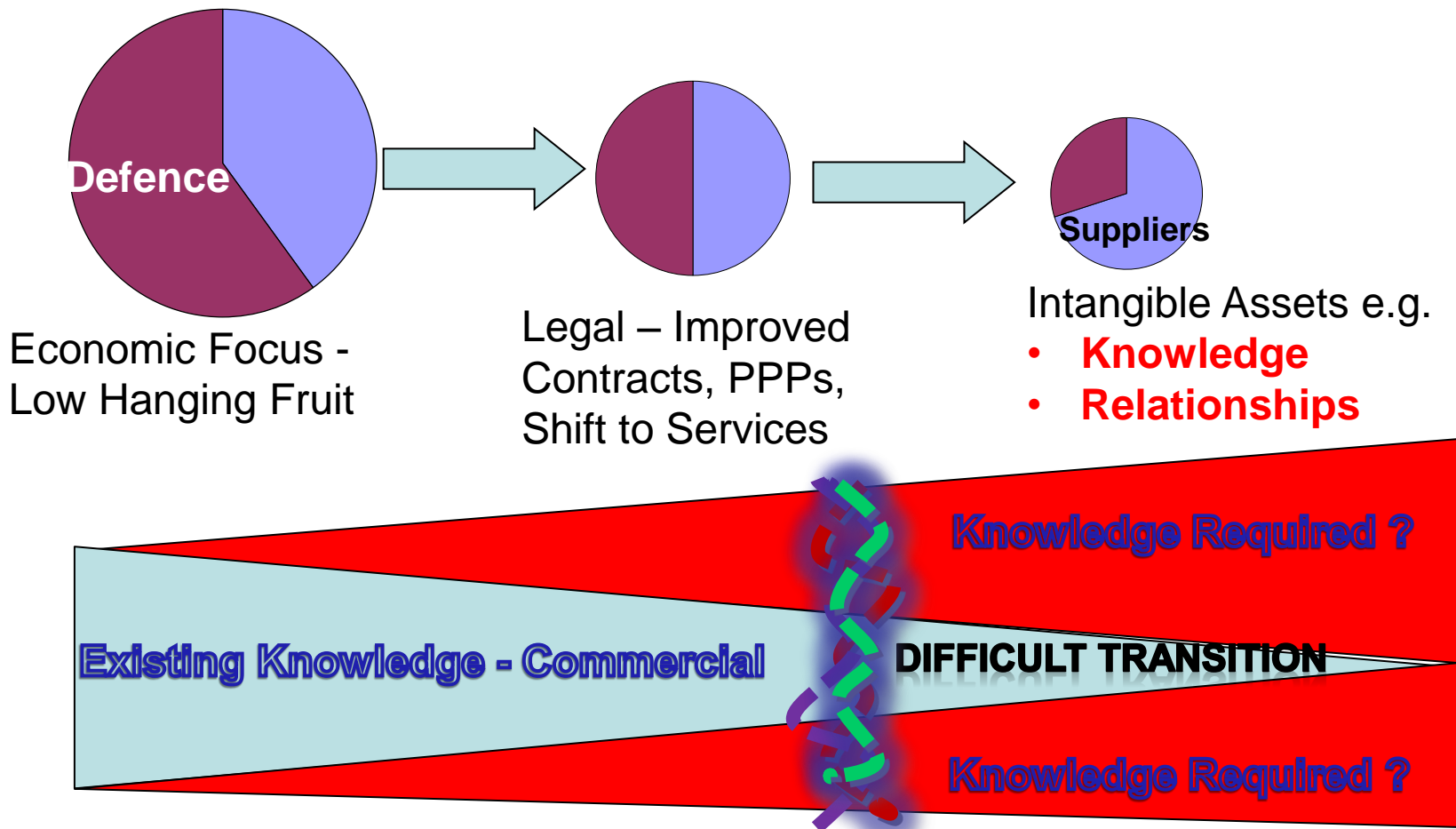
Knowledge is sticky, so contrary to some economic theories, it does not always easily transmit across organisational boundaries.

- Fewer Suppliers
- Possible shift from suppliers to networks
- Greater Dependencies
- Long term relationships with no divorce options

Intangible Assets impact on Competitiveness, yet presently no agreed evaluation methodology

**Intelligent
?
Customer**

4.3. Intelligent Customer – New Competencies



4.4. Conclusion

- Dominant discourse – will continue to be framed in economic terms and the measures used will be against those assumed to come from a “competitive market”
- Competitive markets are generally not a reality for defence – therefore need more than commercial competencies (e.g. applying financial and legal knowledge) i.e. competencies on how to identify and exploit intangible assets (e.g. knowledge)
- Identifying and developing these new competencies will be challenging and implementing them will involve a significant and challenging transition for acquisition practitioners

Failure to develop these new competencies will have adverse effects relative to achieving competitive outcomes